NOTES TO THE FINANCIAL STATEMENTS

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2002

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The City of Lincoln, Nebraska (City) was incorporated on April 7, 1869. The City operates under a Home Rule Charter and has a Mayor-Council form of government with an elected full-time chief executive, the Mayor, and an elected legislative body, the Council, composed of 7 members. Three Council members are elected at large and 4 by district on a nonpartisan basis for a term of 4 years. The administration of City government is performed under the direction of the Mayor through administrative departments.

The accompanying financial statements present the government of the City. Based upon the criteria identified in Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, none of the City's significant potential component units are required to be included as part of the reporting entity. Regarding related organizations, the City's Mayor appoints and the City Council approves all of the board appointments of the Housing Authority of the City of Lincoln, however, the City has no further accountability for this organization.

FISCAL YEAR-END

All fund types of the City, with the exception of Lincoln Electric System (LES), are reported as of and for the year ended August 31, 2002. December 31st is the fiscal year-end of LES as established by the City Charter, and the last separate audit was as of and for the year ended December 31, 2001. The amounts included in the City's August 31, 2002, financial statements for LES are audited figures as of and for the year ended December 31, 2001.

FINANCIAL REPORTING REQUIREMENTS

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* was issued in June 1999 and adopted by the City effective September 1, 2001. This statement established new financial reporting requirements for state and local governments. GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus,* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, were issued in June 2001 and adopted by the City effective September 1, 2001.

The adoption of these statements required the City to make several changes to the presentation of its basic financial statements, which include the following significant items:

- Management's Discussion and Analysis, which precedes the basic financial statements, has been presented.
- Government-wide financial statements are presented, prepared using accrual accounting for all of the City's activities.
- Retained earnings have been reclassified into Invested in Capital Assets, net of related debt, Restricted, and Unrestricted net assets.
- Expanded disclosures for long-term debt and capital assets have been presented.
- Cash flow statements have been presented using the direct method.

GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements,* was issued in March 2000 and adopted by the City effective September 1, 2001. This Interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures, including compensated absences.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. Fiduciary activities, whose resources are not available to finance the City's programs, are excluded from the government-wide statements. The material effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *total economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, including interest on long-term debt, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, sales taxes, highway user fees, interdepartmental charges, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual. Special assessments are recorded as revenues in the year the assessments become current. Annual installments not yet due are reflected as special assessment receivables and deferred revenues. Other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund finances the day-to-day operation of the basic governmental activities, such as legislative, judicial, administration, police and fire protection, legal services, planning, and parks and recreation.

The Street Construction Fund accounts for the resources accumulated and payments made for the maintenance, construction, and improvement of the streets and highways in the City.

The Community Health Permanent Endowment Fund accounts for the cash proceeds realized by the City from the sale of Lincoln General Hospital together with any interest or other investment income earned. The endowment may be increased by donations, bequests, or appropriations to the fund. Monies in the fund are used for funding health and health-related programs that further the health, safety, or welfare of the citizens of Lincoln.

The government reports the following major enterprise funds:

The Lincoln Wastewater System Fund accounts for the activities of the government's wastewater utility.

The Lincoln Water System Fund accounts for the activities of the government's water distribution operations.

The Lincoln Electric System Fund accounts for the activities of the government's electric distribution operations.

Additionally, the government reports the following fund types:

Internal Service Funds account for data processing, engineering, risk management, fleet management, telecommunications, and copy services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

The Pension Trust Fund accounts for the receipt, investment, and distribution of retirement contributions made for the benefit of police officers and firefighters.

The Agency Funds account for the collection of various taxes, fines, fees and loan programs due to other government entities; good faith money due to contractors upon project completion; funds held to pay outstanding warrants; funds to pay phone system charges; defeased bond proceeds to pay called bonds for which the City Treasurer is trustee; funds for the joint administrative entity known as JAVA, created to coordinate planning and implementation of the Antelope Valley Project; and funds deposited by Gateway Shopping Center in fulfillment of a condition of the use permit for expansion.

Private-sector standards of accounting and financial reporting issued prior to November 30, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. Only the City's Lincoln Wastewater System and Lincoln Water System funds have elected to follow subsequent private-sector guidance.

The effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and charges between the business-type functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, fines and forfeitures, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service funds are charges to customers for goods and services. Operating expenses include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, cash held by City Treasurer, and short-term investments with original maturities of three months or less from the date of acquisition. These investments are not specifically identified with any one fund. Interest is allocated to the individual funds on the basis of average cash balances.

The City may invest "in certificates of deposit, in time deposits, and in any securities in which the state investment officer is authorized to invest pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act and as provided in the authorized investment guidelines of the Nebraska Investment Council in effect on the date the investment is made."

Investments are carried at fair value, except for short-term investments which are reported at amortized cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value, based on relevant market information of similar financial instruments. Income from investments held by the individual funds is recorded in the respective funds as it is earned.

In accordance with authorized investment laws, the Pension Trust Fund of the City is allowed to invest in various mortgage-backed securities, such as collateralized mortgage obligations. They are reported in aggregate as mortgage-backed securities in the disclosure of custodial credit risk (see Note 4).

Receivables and Payables

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets, in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables generally is deferred until they become current receivables.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Amounts of governmental fund inventories and prepaid items are offset by a fund balance reserve account to indicate that they do not represent "available spendable resources".

Restricted Assets

Certain proceeds of the enterprise funds revenue bonds, resources set aside for their repayment, as well as funds for subsequent period operations are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Assets included in the Bond Principal and Interest Account and the Bond Reserve Account are restricted for the payment of bond principal and interest. Assets included in the Surplus Account and the Depreciation and Replacement Account are restricted for purposes including improvements, repairs and replacements, acquisition of equipment and the payment of bond principal and interest. Assets included in the Construction Account are restricted for paying the cost of the capital projects.

Certain assets of the Golf enterprise fund are classified as restricted assets to be used for capital improvements.

Certain assets of the Pershing Municipal Auditorium enterprise fund are classified as restricted assets to be used for improvements and to supplement event net losses.

Certain assets of the Community Health Permanent Endowment trust fund are classified as restricted assets to provide for all reimbursable claims pursuant to the terms of the Lincoln General Hospital sale agreement. Additional assets are restricted because their use is restricted by donors for specific purposes.

A recap of restrictions and related balances at August 31, 2002, are as follows:

Fund Account		Golf	Parking Facilities	Pershing Municipal Auditorium	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Community Health Permanent Endowment	Totals
Principal and Interest	$		209,091			86,786	7,293,000		7,588,877
Reserve		316,500	2,089,568		1,445,958	5,481,969	12,705,000		22,038,995
Surplus			594,702		16,482,763	3,176,917			20,254,382
Depreciation and Replacement		100,000	768,224						868,224
Construction			844,562				143,596,000		144,440,562
Loan Payments					1,073,360				1,073,360
Capital Improvements		119,959		176,263					296,222
Marketing				73,896					73,896
Communications Escrow							116,000		116,000
Claims								754,929	754,929
Donor Specific Purpose								92,483	92,483
Operations						1,500,000			1,500,000
	$	536,459	4,506,147	250,159	19,002,081	10,245,672	163,710,000	847,412	199,097,930

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, drainage systems, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalization value of the assets constructed.

Property, plant and equipment of the government is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	10 - 50
Improvements	5 - 40
Infrastructure	20 - 100
Equipment	2 - 20
Utility Plant	30 - 40

The one exception to this rule is Library media, which uses a composite depreciation method.

Compensated Absences

City employees generally earn vacation days at a variable rate based on years of service. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum allowed accumulation which is in no case longer than 30 days.

Employees earn sick leave at the rate of one day per month with total accumulation limits established by the employees' bargaining unit. Upon retirement, an employee is reimbursed for one-fourth or one-half of accumulated sick leave, with maximums depending on the employees' bargaining unit contract. In some cases payment may be placed directly in a medical spending account rather than reimbursing the employee directly. Police union employees who leave the City service in good standing after giving two weeks notice of termination of employment are compensated for one-fourth of accumulated sick leave to the date of separation. LES is covered by a separate personnel plan regarding vacation and sick leave with the liability for these benefits recorded in Accrued Liabilities.

Vacation leave and other compensated absences with similar characteristics are accrued as the benefits are earned if the leave is attributable to past service and it is probable that the City will compensate the employees for such benefits. Sick leave and other compensated absences with similar characteristics are accrued as the benefits are earned only to the extent it is probable that the City will compensate the employees for such benefits through cash payments conditioned on the employee's termination or retirement. Such accruals are based on current salary rates and include salary related payments directly and incrementally associated with payments made for compensated absences on termination.

All vacation and sick leave is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. In the governmental funds, only compensated absences expected to be liquidated with expendable available financial resources are recorded as a fund liability.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Designations of unrestricted fund balance represent tentative management plans that are subject to change.

BUDGETARY DATA

The City Council follows these procedures, set out in the City Charter, in establishing the budgetary data reflected in the financial statements:

1) At least 40 days prior to the end of the budget and fiscal year, the Mayor submits to the City Council a proposed annual budget for the ensuing year. The annual budget is a complete financial plan for the ensuing budget year and consists of an operating budget and a capital budget.

2) Public hearing on the proposed budget is scheduled for not later than 10 days prior to the budget adoption date.

3) Not later than 5 days prior to the end of the fiscal year, the budget is legally adopted by resolution of the City Council.

4) The Mayor is authorized to transfer unencumbered balances between appropriations of the same department or agency. The Mayor also has authority to lower appropriations in any fund where actual revenues are less than appropriated in order to avoid incurring a budget deficit for the year.

   Appropriation transfers between departments or agencies may only be authorized by resolution of the City Council. The Council may not make any appropriations in addition to those authorized in the annual budget, except that it may authorize emergency appropriations in the event of an emergency threatening serious loss of life, health, or property in the community.

5) Budgets for all funds are adopted on a basis not consistent with generally accepted accounting principles (GAAP). Since encumbrances are included in the City's budget accounting, year-end encumbrances are reappropriated to the next year in the budget process. Budget basis expenditures are presented on a cash basis.

   Amendments to the adopted budget were made this year and result from prior fiscal year encumbrances identified subsequent to budget adoption, appropriation of unanticipated revenues to certain funds as provided in the budget resolution, and appropriation revision between or among departments as provided for under the City Charter.

6) Appropriation controls are required at the departmental level. However, as a matter of policy and practice, appropriations generally are controlled at the next level of organization (division) or by fund within a department.

7) Operating appropriations lapse at the end of the fiscal year except for capital improvement appropriations and year-end encumbrances against operating budgets. Capital improvement appropriations are continuing appropriations through completion of the project.

8) Budgets are adopted by resolution for the following fund types: general, special revenue, debt service, capital projects, permanent, enterprise, internal service, and pension trust. Legally adopted annual budgets are not established for certain special revenue (Advance Acquisition, Tax Sales Revolving, Special Assessment, Property Tax Refunds, Parks and Recreation Special Projects, and Commission on Aging Gift Trust), debt service (Special Assessment), and agency funds. In addition, capital project funds are not budgeted on an annual basis, but rather a project basis. As a result, budget to actual comparisons have not been presented for these funds.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets of governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds." The details of the $76,775,889 difference are as follows:

Bonds Payable	$ 68,076,944
Less deferred charge for issuance costs	(230,786)
Less issuance discounts	(3,066)
Plus issuance premiums	143,659
Capital Leases Payable	1,818,300
Accrued Interest Payable	690,966
Claims Payable	24,230
Compensated Absences	6,255,642
Net difference	$ 76,775,889

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balances – total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this $38,162,734 difference are as follows:

Capital outlay	$ 52,095,029
Depreciation expense	(13,932,295)
Net difference	$ 38,162,734

Another element of that reconciliation states that "the issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $(13,519,180) difference are as follows:

Debt issued or incurred:	
Capital lease financing	$ (84,775)
Issuance of tax-supported Antelope Valley project bonds	(11,080,000)
Issuance of general obligation storm sewer bonds	(7,500,000)
Deferred charge for issuance costs	230,786
Issuance discounts	3,066
Issuance premiums	(143,659)
Principal repayments	5,055,402
Net difference	$ (13,519,180)

Another element of that reconciliation states that "some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this $(741,069) difference are as follows:

Loss on disposal of capital assets	$	(47,756)
Accrued interest		(243,083)
Claims		10,270
Compensated absences		(460,500)
Net difference	$	(741,069)

(3) PRIOR PERIOD ADJUSTMENTS

Net Assets of business-type activities on the statement of activities and in the fund financial statements have been reclassified as of the beginning of the year. The distinction between contributed capital and retained earnings is no longer operative under the new reporting model as directed by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*

Beginning balance restatements have also been recorded in the governmental funds due to various fund reclassifications as implemented under GASB Statement No. 34 – and the effects related to the required change in measurement focus and basis of accounting.

In prior periods the City has recorded a current liability for compensated absences based on an estimated amount to be used in the following year. However, GASB Interpretation No. 6 states that the accumulation of financial resources in a governmental fund for the eventual payment of unmatured liabilities does not constitute an outflow of current financial resources. Therefore, the reclassification of compensated absences in the governmental funds has been recorded as an adjustment restating the beginning fund balance of those governmental funds. Adjustments are as follows:

General Fund	Street Construction Fund	Nonmajor Special Revenue Funds	Total
$ 2,843,557	96,924	1,250,546	4,191,027

(4) DEPOSITS AND INVESTMENTS

DEPOSITS

State Statutes 15-846 and 15-847 R.R.S., 1943 require banks either to give bond or to pledge government securities (types of which are specifically identified in the Statutes) to the City Treasurer in the amount of the City's deposits. The Statutes allow pledged securities to be reduced by the amount of the deposit which is insured by the Federal Deposit Insurance Corporation (FDIC).

For purposes of classifying categories of custodial risk, the bank balances of the City's deposits as of August 31, 2002, are either entirely insured or collateralized with securities held by the City's agent in the City's name.

INVESTMENTS

For reporting purposes, the carrying amount of securities is classified into the following three categories of custodial risk:

1) Insured or registered, or securities held by the City or its agent in the City's name.

2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

Pension Fund
At August 31, 2002, the Pension Trust fund had investments as follows:

	Category 3	Reported Amount	Fair Value
Mortgage-backed Securities	$ 57,855,252	57,855,252	57,855,252
Government Securities	27,087,905	27,087,905	27,087,905
Government Agencies	2,080,000	2,080,000	2,080,000
Repurchase Agreements	675,000	675,000	675,000
	$ 87,698,157	87,698,157	87,698,157
Open-end Mutual Funds		42,141,754	42,141,754
		$ 129,839,911	129,839,911

Lincoln Electric System (LES)
At December 31, 2001, LES had investments as follows:

	Category 2	
	Reported Amount	Fair Value
Government Securities	$ 4,385,000	4,496,000
Government Money Markets	183,630,000	183,630,000
	$ 188,015,000	188,126,000

Lincoln Wastewater System
At August 31, 2002, Lincoln Wastewater System had investments as shown below:

	Category 3	
	Reported Amount	Fair Value
Government Securities	$ 16,568,939	16,780,662

Lincoln Water System
At August 31, 2002, Lincoln Water System had investments as follows:

	Category		Reported	Fair
	2	3	Amount	Value
Government Securities	$ -	2,494,214	2,494,214	2,495,400
Repurchase Agreements	5,477,216	-	5,477,216	5,477,216
	$ 5,477,216	2,494,214	7,971,430	7,972,616

Community Health Permanent Endowment

At August 31, 2002, Community Health Permanent Endowment had investments as follows:

	Category 2	Reported Amount	Fair Value
Government Securities	$ 1,210,899	1,210,899	1,210,899
Government Agencies	12,586,993	12,586,993	12,586,993
Corporate Bonds	28,956,337	28,956,337	28,956,337
Foreign Obligations	57,195	57,195	57,195
	$ 42,811,424	42,811,424	42,811,424
Securities Lending Short-term Investment Pool		7,653,943	7,653,943
		$50,465,367	50,465,367

All Other City Funds

Investments of all other City funds do not vary significantly in either type or risk. These investments at August 31, 2002, were as follows:

	Category 2	Category 3	Reported Amount	Fair Value
Government Agencies	$ 2,031,706	80,876,384	82,908,090	82,926,656
Government Money Markets	206,989	26,146,841	26,353,830	26,353,830
	$ 2,238,695	107,023,225	109,261,920	109,280,486
Interfund Investments			1,136,130	1,136,130
Inter-government Loan			996,000	996,000
			$111,394,050	111,412,616

Summary of Deposit and Investment Balances

Following is a reconciliation of the City's deposit and investment balances as of August 31, 2002:

	Totals
Investments	$ 504,254,697
Certificates of Deposit	55,242,000
Bank Accounts	4,135,412
Cash on Hand	129,100
	$ 563,761,209

	Government-wide Statement of Net Assets	Fiduciary Funds Statement of Net Assets	Totals
Cash and Cash Equivalents	$ 85,015,463	6,154,492	91,169,955
Investments	136,190,571	129,839,911	266,030,482
Invested Securities Lending	7,653,943	-	7,653,943
Restricted Assets:			
Cash and Cash Equivalents	7,896,461	-	7,896,461
Investments	191,010,368	-	191,010,368
	$ 427,766,806	135,994,403	563,761,209

There were no investments that resulted in significantly greater custodial risk held during the fiscal year ended August 31, 2002, than those held at year end.

The City's Pension Trust Fund invests in collateralized mortgage obligations to maximize investment earnings. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

The policies of the Community Health Endowment (CHE) Board of Trustees authorize the CHE fund to participate in securities lending transactions, where securities are loaned to brokers and broker dealers with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank administers the securities lending program and receives cash at least equal in value to the market value of the loaned securities as collateral for securities of the type on loan at year-end. Securities lent at year-end for cash collateral are presented as unclassified in the preceding schedule of custodial risk. At year-end, CHE has no credit risk exposure to borrowers because the amounts CHE owes the borrowers exceed the amounts the borrowers owe CHE. The cash can not be spent by CHE unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses resulting from borrower default during the year.

Either CHE or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent’s short-term investment pools that had an average duration of 44 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. Loss indemnification is provided to the Fund by the contract with the custodian.

(5) RECEIVABLES

Receivables at August 31, 2002, consist of the following (in thousands):

Fund	Taxes	Accounts	Contributions	Special Assessment Current	Special Assessment Deferred	Accrued Interest	Gross Receivables	Allowance For Uncollectibles	Net
General	$ 2,356	1,960	-	-	-	84	4,400	-	4,400
Street Construction	-	276	-	-	-	112	388	-	388
Community Health Endowment	-	-	-	-	-	3	3	-	3
Wastewater System	-	2,772	-	-	-	190	2,962	-	2,962
Water System	-	5,589	-	-	-	32	5,621	-	5,621
Electric System	-	15,530	-	-	-	408	15,938	-	15,938
Nonmajor -									
Special Revenue	1,013	295	-	-	-	93	1,401	-	1,401
Debt Service	776	-	-	555	3,669	78	5,078	317	4,761
Capital Projects	-	-	-	-	-	127	127	-	127
Enterprise	-	2,971	-	-	-	79	3,050	964	2,086
Internal Service	-	401	-	-	-	112	513	-	513
Fiduciary	-	155	159	-	-	411	725	-	725
	$ 4,145	29,949	159	555	3,669	1,729	40,206	1,281	38,925

Enterprise funds customer accounts receivable include unbilled charges for services.

Delinquent Special Assessment Receivables at August 31, 2002, were $273,036.

No other receivables are expected to be uncollected within one year.

(6) DUE FROM OTHER GOVERNMENTS

The total of Due From Other Governments of $25,118,687 includes the following significant items:

Fund/Fund Type	Amount	Service
General/Governmental	$8,590,994	State of Nebraska, July/August Sales and Use Tax
	339,627	August Motor Vehicle Taxes Collected by Lancaster County
	154,224	Federal Government, Cost Reimbursements
	75,069	Lancaster County, Cost Reimbursements
Street Construction/Governmental	2,629,116	State of Nebraska, July/August Highway User Fees
	9,085,787	Federal Government, Cost Reimbursements
	1,150,127	State of Nebraska, Project Cost Reimbursements
Lincoln Area Agency on Aging/Special Revenue	107,918	Federal Government, Cost Reimbursements
Lincoln/Lancaster Co. Health/Special Revenue	366,526	Lancaster County, Cost Reimbursements
Snow Removal/Special Revenue	91,108	August Motor Vehicle Taxes Collected by Lancaster County
StarTran/Special Revenue	47,985	Federal Government, Subsidies
Federal Grants/Special Revenue	1,235,946	Federal Government, Cost Reimbursements
Antelope Valley/Debt Service	166,167	State of Nebraska, July/August Development Fund disbursements
Vehicle Tax/Capital Projects	619,559	August Motor Vehicle Taxes Collected by Lancaster County
Information Services/Internal Service	189,274	Lancaster County Billings
Engineering Revolving/Internal Service	58,822	State of Nebraska, Project Cost Reimbursements
Copy Services/Internal Service	19,346	Lancaster County Billing

(7) CAPITAL ASSETS

Capital Asset activity for the year ended August 31, 2002, was as follows:

		Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:					
Capital Assets, not being Depreciated:					
Land	$	30,992,503	6,852,515	34,177	37,810,841
Construction in Progress		50,397,524	19,345,482	10,180,318	59,562,688
Total Capital Assets, not being Depreciated		81,390,027	26,197,997	10,214,495	97,373,529
Capital Assets, being Depreciated:					
Buildings		45,732,176	16,051,632	124,860	61,658,948
Improvements Other Than Buildings		41,050,510	5,551,052	69,169	46,532,393
Machinery and Equipment		53,571,943	12,411,969	3,368,553	62,615,359
Infrastructure		240,400,880	13,207,193	-	253,608,073
Total Capital Assets, being Depreciated		380,755,509	47,221,846	3,562,582	424,414,773
Less Accumulated Depreciation for:					
Buildings		18,347,934	1,413,346	119,393	19,641,887
Improvements Other Than Buildings		13,285,498	1,348,803	69,169	14,565,132
Machinery and Equipment		30,546,119	5,267,648	3,156,631	32,657,136
Infrastructure		74,202,772	7,940,909	-	82,143,681
Total Accumulated Depreciation		136,382,323	15,970,706	3,345,193	149,007,836
Total Capital Assets, being Depreciated, Net		244,373,186	31,251,140	217,389	275,406,937
Governmental Activities Capital Assets, Net	$	325,763,213	57,449,137	10,431,884	372,780,466

		Beginning Balances	Increases	Decreases	Ending Balances
Business-type Activities:					
Capital Assets, not being Depreciated:					
Land	$	13,592,178	595,385	2,310	14,185,253
Construction in Progress		84,564,371	65,154,478	64,046,920	85,671,929
Total Capital Assets, not being Depreciated		98,156,549	65,749,863	64,049,230	99,857,182
Capital Assets, being Depreciated:					
Buildings		166,473,802	6,079,718	7,144	172,546,376
Improvements Other Than Buildings		289,738,150	16,209,344	560,886	305,386,608
Machinery and Equipment		22,958,410	2,192,415	1,242,060	23,908,765
Utility Plant		579,185,000	51,055,000	1,924,000	628,316,000
Total Capital Assets, being Depreciated		1,058,355,362	75,536,477	3,734,090	1,130,157,749
Less Accumulated Depreciation for:					
Buildings		45,824,420	3,662,392	7,144	49,479,668
Improvements Other Than Buildings		73,898,251	6,840,893	553,605	80,185,539
Machinery and Equipment		12,464,524	1,742,880	1,030,440	13,176,964
Utility Plant		215,550,000	19,138,000	2,619,000	232,069,000
Total Accumulated Depreciation		347,737,195	31,384,165	4,210,189	374,911,171
Total Capital Assets, being Depreciated, Net		710,618,167	44,152,312	(476,099)	755,246,578
Business-type Activities Capital Assets, Net	$	808,774,716	109,902,175	63,573,131	855,103,760

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:		
General Government	$	747,653
Public Safety		1,312,001
Streets and Highways, including Infrastructure		7,650,187
Culture and Recreation		2,964,570
Economic Opportunity		49,281
Health and Welfare		132,448
Mass Transit		1,076,155
Internal Service Funds Capital Assets Depreciation is charged to the various functions based on usage of the assets.		2,038,411
Total Depreciation Expense - Governmental	$	15,970,706
Business-type Activities:		
Parking Lots	$	21,995
Golf		469,001
Parking Facilities		896,419
Pershing Municipal Auditorium		153,451
Sanitary Landfill		1,370,918
Emergency Medical Services		176,114
Wastewater System		4,027,563
Water System		5,130,704
Lincoln Electric System		19,138,000
Total Depreciation Expense - Business-type	$	31,384,165

Capital asset activity of each major fund was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Wastewater System:				
Capital Assets, not being Depreciated:				
Land	$ 2,138,362	-	-	2,138,362
Construction in Progress	7,967,906	7,157,847	948,160	14,177,593
Total Capital Assets, not being Depreciated	10,106,268	7,157,847	948,160	16,315,955
Capital Assets, being Depreciated:				
Buildings	36,843,157	105,128	-	36,948,285
Improvements Other Than Buildings	111,275,542	2,855,877	-	114,131,419
Machinery and Equipment	7,565,989	638,028	215,732	7,988,285
Total Capital Assets, being Depreciated	155,684,688	3,599,033	215,732	159,067,989
Less Accumulated Depreciation for:				
Buildings	14,827,383	993,355	-	15,820,738
Improvements Other Than Buildings	31,011,581	2,601,707	-	33,613,288
Machinery and Equipment	4,266,666	432,501	211,145	4,488,022
Total Accumulated Depreciation	50,105,630	4,027,563	211,145	53,922,048
Total Capital Assets, being Depreciated, Net	105,579,058	(428,530)	4,587	105,145,941
Wastewater System Capital Assets, Net	$ 115,685,326	6,729,317	952,747	121,461,896

		Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Water System:					
Capital Assets, not being Depreciated:					
Land	$	4,386,218	549	-	4,386,767
Construction in Progress		5,620,139	15,500,705	8,494,633	12,626,211
Total Capital Assets, not being Depreciated		10,006,357	15,501,254	8,494,633	17,012,978
Capital Assets, being Depreciated:					
Buildings		87,050,277	226,517	-	87,276,794
Improvements Other Than Buildings		157,101,487	12,825,676	560,886	169,366,277
Machinery and Equipment		6,471,617	425,193	154,791	6,742,019
Total Capital Assets, being Depreciated		250,623,381	13,477,386	715,677	263,385,090
Less Accumulated Depreciation for:					
Buildings		18,708,349	1,572,140	-	20,280,489
Improvements Other Than Buildings		36,815,932	3,213,661	553,605	39,475,988
Machinery and Equipment		4,174,291	344,903	114,005	4,405,189
Total Accumulated Depreciation		59,698,572	5,130,704	667,610	64,161,666
Total Capital Assets, being Depreciated, Net		190,924,809	8,346,682	48,067	199,223,424
Water System Capital Assets, Net	$	200,931,166	23,847,936	8,542,700	216,236,402

		Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Electric System:					
Capital Assets, not being Depreciated:					
Construction in Progress	$	70,500,000	42,196,000	54,129,000	58,567,000
Capital Assets, being Depreciated:					
Utility Plant		579,185,000	51,055,000	1,924,000	628,316,000
Less Accumulated Depreciation		215,550,000	19,138,000	2,619,000	232,069,000
Total Capital Assets, being Depreciated, Net		363,635,000	31,917,000	(695,000)	396,247,000
Electric System Capital Assets, Net	$	434,135,000	74,113,000	53,434,000	454,814,000

During 2002, Lincoln Wastewater System incurred $306,508 of interest cost which was capitalized into construction in progress. Lincoln Water System incurred $2,174,802 of interest cost, of which $607,096 was capitalized into construction in progress.

Lincoln Electric System utility plant includes an allowance for funds used during construction of projects costing in excess of $2 million. The allowance for funds used during construction consists of interest costs on proceeds of commercial paper notes/bonds, less net earnings on proceeds temporarily invested. The weighted-average rate for 2001 was 3.9%.

The Parking Facilities fund incurred interest expense of $936,436, of which $103,840 was capitalized into buildings.

(8) PROPERTY TAXES

The Home Rule Charter of the City imposes a tax ceiling for general revenue purposes. The City tax ceiling was established by using the September 1, 1966, City dollar tax limit as an initial tax limit, and increasing that tax limit each year following 1966 by 7% so that in each fiscal year thereafter, the amount of the City tax limit shall be the amount of the City tax limit for the previous year plus 7% thereof. In addition, the City has the power to levy taxes each year sufficient to pay any judgment existing against the City, the interest on bonded debt, and the principal on bonded debt maturing during the fiscal year or within 6 months thereafter, as well as taxes authorized by state law. The 2001 tax levy, for the 2001-2002 fiscal year, was $44,637,707 below the legal limit, with a tax rate per $100 valuation of 0.31452. The assessed value upon which the 2001 levy was based was $10,724,685,837.

The tax levies for all political subdivisions in Lancaster County are certified by the County Board on or before October 15th. Real estate taxes are due on December 31st and attach as an enforceable lien on property on January 1st following the levy date and become delinquent in two equal installments on April 1st and August 1st. Personal property taxes are due December 31st and become delinquent on April 1st and August 1st following the levy date. Delinquent taxes bear 14% interest.

Property taxes levied for 2001-2002 are recorded as revenue when expected to be collected within 60 days after August 31, 2002. Prior-year levies were recorded using these same principles, and remaining receivables are re-evaluated annually. Property taxes expected to be collected after 60 days are recorded as deferred revenue on the fund balance sheets.

The City-owned electric utility is required by City Charter to make payments in lieu of taxes, aggregating 5% of its gross retail operating revenues derived from within the City limits of incorporated cities and towns served.

(9) LONG-TERM DEBT

The City issues general obligation, special assessment, and revenue bonds to finance the acquisition and construction of major capital assets. Bonded indebtedness has also been entered into to advance refund several general obligation and revenue bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Special assessment bonds are repaid from amounts levied against affected property owners, but in the unlikely event collections are not sufficient to make debt payments, the responsibility rests with the City to meet that obligation. For revenue bonds the government pledges income derived from the acquired or constructed assets to pay the debt service.

Net assets of $6,526,669, $2,613,313, $3,657,506, and $4,699,699 are currently available in the debt service funds to service the General Obligation Bonds, Tax Supported Bonds, Tax Allocation Bonds, and Special Assessment Bonds, respectively. Revenue Bonds are funded partially from reserve accounts set up for debt repayment and partially from proceeds of daily operations.

The City has entered into lease agreements for financing the acquisition of land, buildings, emergency ambulances and defibrillators, and computer equipment and software. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Land	$ 42,000	$ 210,000
Buildings	2,185,750	-
Machinery and Equipment	206,597	1,748,261
Less: Accumulated Depreciation, (where applicable)	(440,237)	(228,999)
Total	$ 1,994,110	$ 1,729,262

Under the City's Home Rule Charter, there is no legal debt margin. The various bond indentures contain significant limitations and restrictions on annual debt service requirements, minimum amounts to be maintained in various bond reserve funds, and minimum revenue bond coverages. In the opinion of management, the City is in compliance with all such significant limitations and restrictions.

On August 15, 2001, LES issued $34.725 million in taxable commercial paper notes with an interest rate of 3.575% to advance refund $35.510 million in outstanding 1992 Series bonds with an average interest rate of 5.721%. LES advance refunded the 1992 bonds to restructure its debt and to provide for flexible covenants and business operations. The refunding resulted in an accounting loss of approximately $6 million, which is deferred and amortized through 2016, the period over which LES expects to recover the costs. The net proceeds of $34.412 million plus an additional $2.44 million of the 1992 series reserve fund were used to purchase U.S. government securities and money market funds and were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 bonds. As a result, the 1992 bonds have been removed from the financial statements.

In prior years, the City defeased certain bonds by placing the proceeds of the refunding bonds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On August 31, 2002, the following bonds outstanding are considered defeased:

Revenue Bonds:		
08/15/80	Lincoln Wastewater	$ 5,000
Various	Lincoln Electric	76,000,000
01/15/93	Hospital Revenue	19,895,000
Total Defeased Bonds Outstanding		$ 95,900,000

LES issued short-term taxable commercial paper notes dated August 15, 2001, as noted above, to refund the 1992 Series bonds. The notes matured in June 2002, and had an interest rate of 2.145% at December 31, 2001.

On November 27, 2001, the City issued $3,165,000 in Golf Course Revenue Refunding Bonds with an average interest rate of 3.66% to refund $3,310,000 in outstanding 1991 Series bonds with an average interest rate of 6.87%. The refunding resulted in a cash flow differential of $600,533 and an economic gain of $424,500.

Established by City Ordinance, LES may borrow up to $125 million under a commercial paper note program. At December 31, 2001, LES had $75 million of commercial paper notes outstanding. The notes mature at various dates but not more than 270 days after the date of issuance. The weighted-average interest rate for the year ended December 31, 2001, was 3 percent. The annual requirement to pay interest on this outstanding debt is approximately $2,250,000. The outstanding commercial paper notes are secured by a revolving credit agreement which provides for borrowings up to $125 million. LES pays a commitment fee for the credit agreement. Under the terms of the agreement LES refinances the commercial paper upon maturity.

Long-term bonded debt and loans of the City are comprised of the following individual issues (in thousands of dollars):

Original Amount	Issued	Issue	Average Interest Rate	When Due	Date Callable	Interest Date	Outstanding
General Obligation Bonds:							
General Bonds:							
5,193	09/15/89	Sanitary Improvement District #7	5.00000	Ser. '91 to '10	1990	Annually	$ 2,032
4,570	06/01/93	Various Purpose Refunding	4.47364	Ser. '94 to '06	1998	Semiannually	1,305
10,740	07/01/93	Downtown Redev. Refunding	4.26203	Ser. '93 to '02	1998	"	1,265
4,000	04/15/95	Storm Sewer	5.45795	Ser. '95 to '15	2002	"	2,600
6,500	08/01/95	Various Purpose	5.18442	Ser. '96 to '15	2002	"	4,550
8,250	08/15/97	Storm Sewer and Drainage	4.92735	Ser. '99 to '17	2005	"	7,380
14,435	03/01/99	Various Purpose Series A	4.46209	Ser. '00 to '14	2009	"	12,195
7,365	03/01/99	Various Purpose Series A	4.46209	Term '15 to '19	2009	"	7,365
8,220	03/01/99	Various Purpose Series B	3.81227	Ser. '99 to '11	2007	"	5,965
7,500	05/29/02	Storm Sewer and Drainage	4.71847	Ser. '04 to '20	2010	"	7,500
	Total General Bonds						$ 52,157
Municipal Infrastructure Redevelopment Bonds:							
3200	06/13/00	Municipal Infrastructure Redev.	5.04700	Ser. '01 to '09	2005	Semiannually	$ 2,685
Tax Allocation Bonds:							
1,310	11/15/92	Tax Allocation Bonds	5.87280	Ser. '93 to '06	1997	Semiannually	$ 445
105	11/15/92	Tax Allocation Bonds	6.35000	Term '93 to '06	1997	"	55
90	11/15/92	Tax Allocation Bonds	6.30000	Term '93 to '05	1997	"	45
303	10/18/94	Tax Allocation Bonds	8.00000	Term '95 to '05	Anytime	"	129
232	04/21/00	Tax Allocation Bonds	5.49750	Ser. '01 to '10	2000	"	196
1,200	05/01/01	Tax Allocation & Refunding Bonds	3.63774	Ser. '01 to '04	2003	"	975
	Total Tax Allocation Bonds						$ 1,845
	Total General, MIRF, And Tax Allocation Bonds						$ 56,687
Special Assessment Bonds:							
3,860	11/15/89	Special Assessment Revolving	6.47384	Ser. '90 to '04	1996	Semiannually	$ 310
	TOTAL GENERAL OBLIGATION BONDS						$ 56,997
Tax-Supported Revenue Bonds:							
11,080	2/27/02	Antelope Valley Project	4.49907	Ser. '02 to '16	2012	Semiannually	$ 11,080
Revenue Bonds And Loans:							
60,000	08/15/93	Water Revenue	5.13966	Ser. '94 to '12	2003	Semiannually	$ 37,810
9,018	02/05/91	Wastewater Revenue Project Loan	5.00000	1992 to 2007	1992	Semiannually	$ 5,593
6,815	09/08/99	Parking Revenue Series A	5.18256	Ser. '00 to '14	2001	Semiannually	$ 5,920
6,695	09/08/99	Parking Revenue Series A	5.18256	Term 2014	2001	"	6,695
2,125	09/08/99	Parking Revenue Series B	6.25000	Ser. '00 to '04	2001	"	940
6,000	12/05/02	Parking Revenue	4.78376	Ser.'02 to '21	2011	"	5,715
	Total Parking Bonds						$ 19,270
3,165	10/23/01	Golf Course Revenue Refunding	3.66003	Ser. '02 to '11	2008	Semiannually	$ 2,860
184,650	07/01/93	Electric Refunding '93 Series A	4.68942	Ser. '94 to '11	2004	Semiannually	128,055
62,005	07/01/93	Electric Refunding '93 Series A	5.25000	Term 2015	2012	"	62,005
45,560	02/15/98	Electric Revenue Bonds '98 Series A	4.65000	Ser. '98 to '18	2008	"	39,825
141,150	08/15/01	Electric Revenue Bonds '01	5.07478	Ser. '06 to '20	2011	"	141,150
	Total Electric Bonds						$ 371,035
	TOTAL REVENUE BONDS AND LOANS						$ 436,568

Annual requirements to pay principal and interest to maturity on outstanding debt follows (in thousands of dollars):

Fiscal Year Ended August 31	Governmental Activities							
	General Obligation Bonds		Special Assessment Bonds		Tax-Supported Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003	$ 5,060	2,523	105	18	270	446	148	86
2004	3,850	2,333	105	10	555	436	158	80
2005	3,936	2,168	100	3	565	423	142	73
2006	3,770	2,004	-	-	580	409	138	67
2007	3,519	1,840	-	-	595	391	102	61
2008 - 2012	16,222	6,866	-	-	3,305	1,618	594	220
2013 - 2017	13,395	3,486	-	-	5,210	773	347	84
2018 - 2022	6,345	718	-	-	-	-	189	12
2023 - 2027	590	15	-	-	-	-	-	-
	$ 56,687	21,953	310	31	11,080	4,496	1,818	683

Fiscal Year Ended August 31	Business-Type Activities			
	Revenue Bonds And Loans		Capital Leases	
	Principal	Interest	Principal	Interest
2003	$ 15,442	22,087	290	64
2004	18,123	21,367	300	53
2005	19,038	20,507	310	40
2006	20,922	19,595	320	28
2007	20,828	18,584	207	14
2008 - 2012	115,200	76,604	212	5
2013 - 2017	137,835	44,915	-	-
2018 - 2022	89,180	9,224	-	-
	$ 436,568	232,883	1,639	204

Major fund annual requirements to pay principal and interest to maturity on outstanding debt follows (in thousands of dollars):

Fiscal Year Ended August 31	Major Funds					
	Wastewater System		Water System		Electric System	
	Principal	Interest	Principal	Interest	Principal	Interest
2003	$ 1,032	268	3,010	1,972	10,035	19,106
2004	1,083	214	3,155	1,825	12,450	18,327
2005	1,127	160	3,305	1,667	13,170	17,746
2006	1,177	103	3,465	1,499	13,790	17,118
2007	1,174	44	3,640	1,318	15,460	16,450
2008 - 2012	-	-	21,235	3,491	85,390	70,276
2013 - 2017	-	-	-	-	110,830	45,797
2018 - 2022	-	-	-	-	109,910	14,273
	$ 5,593	789	37,810	11,772	371,035	219,093

Long-term liability activity for the year ended August 31, 2002, was as follows:

	09/01/01 Beginning Balance	Additions	Reductions	08/31/02 Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Leases Payable:					
General Obligation Bonds	$ 48,794	7,500	(4,137)	52,157	4,178
Municipal Infrastructure Redevelopment Bonds	2,960	-	(275)	2,685	290
Tax Allocation Bonds	2,244	-	(399)	1,845	593
Special Assessment Debt with Government Commitment	420	-	(110)	310	105
Tax-Supported Antelope Valley Project Bonds	-	11,080	-	11,080	270
Capital Leases	1,868	85	(135)	1,818	147
Gross Bonds and Leases Payable	56,286	18,665	(5,056)	69,895	5,583
Deferred Amounts:					
For Issuance Premiums	-	144	-	144	-
For Issuance Discounts	-	(3)	-	(3)	-
Net Bonds and Leases Payable	56,286	18,806	(5,056)	70,036	5,583
Other Liabilities:					
Compensated Absences	6,359	5,021	(4,492)	6,888	4,812
Claims and Judgements	4,762	2,449	(1,704)	5,507	2,692
Governmental Activity Long-Term Liabilities	$ 67,407	26,276	(11,252)	82,431	13,087
Business-Type Activities:					
Bonds, Notes and Leases Payable:					
Water Revenue Bonds	$ 40,690	-	(2,880)	37,810	3,010
Wastewater Revenue Project Loan	6,585	-	(992)	5,593	1,032
Parking Revenue Bonds	14,385	6,000	(1,115)	19,270	1,085
Golf Course Revenue Bonds	3,310	3,165	(3,615)	2,860	280
Electric System Bonds	276,885	141,150	(47,000)	371,035	10,035
Commercial Paper Notes	65,000	10,000	-	75,000	-
Capital Leases	1,326	587	(274)	1,639	290
Gross Bonds, Notes and Leases Payable	408,181	160,902	(55,876)	513,207	15,732
Deferred Amounts:					
For Issuance Premiums	139	3,160	(84)	3,215	-
For Issuance Discounts	(22,988)	-	5,146	(17,842)	-
For Refunding	-	(50)	5	(45)	-
Net Bonds, Notes and Leases Payable	385,332	164,012	(50,809)	498,535	15,732
Other Liabilities:					
Compensated Absences	807	702	(584)	925	660
Business-Type Activity Long-Term Liabilities	$ 386,139	164,714	(51,393)	499,460	16,392

Internal Service funds predominantly serve the governmental funds, therefore, their long-term liabilities are included with the governmental activities above. Compensated absences are liquidated in both the governmental and business-type funds as applicable. The claims and judgements liability will generally be liquidated through the City's Insurance Revolving internal service fund, which will finance the payment of those claims by charging other funds based on management's assessment of the relative insurance risk that should be assumed by individual funds.

Long-term liability activity for the major funds for the year ended August 31, 2002, was as follows:

	09/01/01 Beginning Balance	Additions	Reductions	08/31/02 Ending Balance	Due Within One Year
Lincoln Wastewater System:					
Loans Payable and Other Liabilities:					
Wastewater Revenue Project Loan	$ 6,585	-	(992)	5,593	1,032
Compensated Absences	291	224	(213)	302	212
Total Long-Term Liabilities	$ 6,876	224	(1,205)	5,895	1,244
Lincoln Water System:					
Bonds Payable:					
Water Revenue Bonds	$ 40,690	-	(2,880)	37,810	3,010
Deferred For Issuance Discounts	(275)	-	25	(250)	-
Net Bonds Payable	40,415	-	(2,855)	37,560	3,010
Other Liabilities:					
Compensated Absences	361	270	(236)	395	242
Total Long-Term Liabilities	$ 40,776	270	(3,091)	37,955	3,252
Lincoln Electric System:					
Bonds and Notes Payable:					
Electric System Revenue Bonds	$ 276,885	141,150	(47,000)	371,035	10,035
Commercial Paper Notes	65,000	10,000	-	75,000	-
Deferred For Issuance Premiums	139	3,160	(84)	3,215	-
Deferred For Issuance Discounts	(22,713)	-	5,121	(17,592)	-
Total Long-Term Liabilities	$ 319,311	154,310	(41,963)	431,658	10,035

(10) FAIR VALUE OF FINANCIAL INSTRUMENTS

In the opinion of management, the carrying value of financial instruments, including commercial paper notes, of the City's utility proprietary funds (Lincoln Wastewater, Lincoln Water, and Lincoln Electric Systems) is presented in the City's financial statements at values which approximated fair value at August 31, 2002, (December 31, 2001 for Lincoln Electric System), with the exception of long-term debt for which the estimated fair value is $5,500,000, $35,200,000 and $377,000,000, respectively.

(11) SEGMENT INFORMATION

The City has issued revenue bonds and other debt instruments to finance capital construction and acquisitions for both the Parks and Recreation and Public Works/Utilities departments. The Golf division of the Parks and Recreation department operates the City’s golf courses and is accounted for in the Golf Fund. The Parking Facilities division of the Public Works/Utilities department operates the City’s downtown parking garages and is accounted for in the Parking Facilities Fund. Summary financial information as of and for the year ended August 31, 2002, for these two divisions is presented as follows:

	Golf	Parking Facilities
CONDENSED STATEMENT OF NET ASSETS		
Assets:		
Current Assets	$ 617,595	942,252
Restricted Assets	536,459	4,506,147
Deferred Charges	69,488	563,621
Capital Assets	8,087,044	37,285,438
Total Assets	9,310,586	43,297,458
Liabilities:		
Current Liabilities	403,990	137,953
Due to Other Funds	9,744	1,602
Current Liabilities Payable from Restricted Assets	301,048	1,701,580
Noncurrent Liabilities	2,909,128	18,185,000
Total Liabilities	3,623,910	20,026,135
Net Assets:		
Invested in Capital Assets, Net of Related Debt	4,864,405	18,579,059
Restricted	515,411	3,889,567
Unrestricted	306,860	802,697
Total Net Assets	$ 5,686,676	23,271,323
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating Revenues	$ 2,637,361	4,347,985
Depreciation Expense	(469,001)	(896,419)
Other Operating Expenses	(2,141,707)	(1,964,389)
Operating Income	26,653	1,487,177
Nonoperating Revenues (Expenses):		
Investment Earnings	35,717	200,561
Gain/Loss on Disposal of Assets	(2,310)	-
Interest Expense and Fiscal Charges	(172,775)	(865,830)
Capital Contributions	145,230	-
Change in Net Assets	32,515	821,908
Beginning Net Assets	5,654,161	22,449,415
Ending Net Assets	$ 5,686,676	23,271,323
CONDENSED STATEMENT OF CASH FLOWS		
Net Cash Provided (Used) by:		
Operating Activitites	$ 562,739	2,837,208
Capital and Related Financing Activities	(1,424,191)	(2,140,712)
Investing Activities	936,508	(1,962,448)
Net Increase (Decrease) in Cash	75,056	(1,265,952)
Beginning Balance	806,982	3,905,228
Ending Balance	$ 882,038	2,639,276

(12) DEFICIT NET ASSETS

The following fund had a net asset deficit as of August 31, 2002, which will be eliminated through the recording of future ambulance service fees, net of expenses:

Emergency Medical Services Enterprise Fund $(59,171)

(13) EMPLOYEES' RETIREMENT PLANS

The employees of the City are covered by several retirement plans. The Police and Fire Department Plan (PFDP) is administered by the City and is included in the Fiduciary Fund type. PFDP recognizes plan member contributions in the period in which they are due. Employer contributions are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All other plans are administered by outside trustees and are not included in the City's combined financial statements.

POLICE AND FIRE PENSION

Plan Description - PFDP is a single-employer defined benefit pension plan administered by the City of Lincoln. PFDP provides retirement, disability, and death benefits to plan members and beneficiaries. Cost-of-living adjustments are provided to members and beneficiaries in accordance with the plan document. Article II Section 3 of the Lincoln Charter assigns the authority to establish and amend benefit provisions to the City Council. The City does not issue a separate report that includes financial statements and required supplementary information for PFDP.

The City has added a new program, Deferred Retirement Option Plan (DROP), for police and fire pension members. The DROP program allows a member to retire for pension purposes, but to continue working. The member receives a paycheck and the member’s monthly pension benefit is deposited into the member’s DROP account. At the end of five years, or anytime before five years, the member must “retire-in-fact”. Contributions to the pension are eliminated at the beginning of the DROP period. Pension benefits are set, and will not be increased because of raises, promotions, increased years of service or pension enhancements. When a member retires-in-fact, their monthly pension benefit will be paid directly to them and the member will have access to the funds in their DROP account.

Membership of the pension plan consisted of the following at August 31, 2002, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	305
Terminated plan members entitled to but not yet receiving benefits	36
Active plan members (non-DROP)	536
DROP members	47
Total	924
Number of participating employers	1

Funding Policy - The contribution requirements of plan members and the City are established by City Ordinance #15728 dated September 24, 1990, and may be amended by the City Council. Plan members are required to contribute between 7% and 8% of their annual covered salary based on an election made by the employee. The City is required to contribute at an actuarially determined rate; the rate for fiscal year 2002 was 6.93% of annual covered payroll. Actual contributions by the City were 5.96% of annual covered payroll as the City has chosen to accelerate the period over which the funding credit is being amortized. Administrative costs of PFDP are financed through investment earnings.

The annual required contribution for the current year was determined as part of the August 31, 2000, actuarial valuation using the entry age actuarial funding method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 5.0 –9.0% per year, and (c) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using a four year smoothed market method. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis over a period of five years.

Three-Year Trend Information
(Dollar Amounts in Thousands)

Year Ended August 31	Annual Pension Cost (APC)	Annual Pension Contribution	Percentage of APC Contributed	Net Pension Obligation
2002	$ 1,989	$ 1,585	80 %	$ (374)
2001	894	1,156	129	(777)
2000	48	958	1996	(516)

Required Supplementary Information (Unaudited)

Schedule of Funding Progress
(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll *	UAAL as a Percentage of Covered Payroll ((b-a)/c)
August 31, 2002	$ 128,319	$ 130,875	$ 2,556	98.0 %	$ 26,607	9.6 %
August 31, 2001	128,070	122,661	(5,409)	104.4	28,216	(19.2)
August 31, 2000	121,404	115,671	(5,733)	105.0	25,808	(22.2)
August 31, 1999	113,903	104,692	(9,211)	108.8	23,611	(39.0)
August 31, 1998	109,213	94,848	(14,365)	115.1	21,860	(65.7)
August 31, 1997	101,476	91,023	(10,453)	111.5	20,909	(50.0)

* Non-DROP payroll in 2002 and later

Schedule of Employer Contributions
(Dollar Amounts in Thousands)

Year Ended August 31	Annual Required Contribution	Annual Pension Contribution	Percentage Contributed
2002	$ 1,878	$ 1,585	84 %
2001	821	1,156	141
2000	92	958	1041
1999	962	904	94
1998	531	504	95
1997	546	433	79

At August 31, 2002, the City has recorded a net pension asset of $374,000 in the government-wide statement of net assets.

ELECTRIC SYSTEM

The City owns and operates its own electric system which is included in the enterprise funds in the accompanying basic financial statements. The electric system is controlled and managed by an administrative board and is not supported by the City's general tax revenues. The electric system provides retirement benefits to its employees under its own separate plan, such benefits being funded solely from revenues derived from the operation of the electric system. A summary of the electric system plan is as follows:

LES has a defined contribution retirement plan covering all employees upon employment; however, employees are not eligible to receive employer contributions until they have been employed six months.

The plan is a straight-money purchase plan, administered by a financial institution. LES's contribution is equal to 200% of the employees' contributions which range from 2-5% of gross wages. This plan and related contribution requirements were authorized by the administrative board of directors under LES' retirement plan, on October 12, 1972, (latest restatement June 15, 1989). Vesting of LES contributions occurs over a five-year period. Employee forfeitures are used to reduce employer contributions. Vested benefits are fully funded. LES incurred contribution expense of approximately $2,155,300 (9.5% of covered payroll) and its employees contributed approximately $1,105,000 (4.9% of covered payroll).

DEPARTMENT DIRECTORS

Directors of City departments are eligible the first of the month following the date employed to be covered by the Director's Money Purchase Plan, established by City Ordinance, and administered by an insurance company. The Plan is a defined contribution plan requiring the City to contribute 6% of the first $4,800 of earned income plus 12% of earned income over $4,800 in one calendar year. Employees covered by the Plan may also make voluntary contributions. Participant accounts are immediately 100% vested. Total and covered payroll for the year ended December 31, 2001, was $1,268,730. City contributions totaled $147,323 or 11.6% of covered payroll. Voluntary employee contributions of $25,425 were made for the year ended December 31, 2001.

ALL OTHER CITY EMPLOYEES

All other City employees are eligible after 6 months' service and age 19 to be covered under the City's Money Purchase Pension Plan, established by City Ordinance, and administered by an insurance company. Enrollment in the program is mandatory at age 40 with 5 years service. Vesting occurs in increments between 3 and 7 years of enrollment in the plan. The Plan is a defined contribution plan requiring employees to contribute 3% of earnings on the first $4,800 and 6% on the balance of earnings. Currently, the City contributes 200% of the employees' contribution. Employee forfeitures are used to reduce employer contributions. Employees covered by the Plan may also make voluntary contributions. During the year ended December 31, 2001, total payroll was approximately $54,898,000 and covered payroll was approximately $45,693,000. City contributions totaled $4,345,732 or 9.5% of covered payroll and employee contributions totaled $2,559,800 or 5.6% of covered payroll. Employees made $38,200 in voluntary contributions for the year ended December 31, 2001.

(14) COMMITMENTS AND CONTINGENCIES

GENERAL

The City participates in a number of federally assisted grant programs. Federal financial assistance programs are subject to financial and compliance audits. The amount of expenditures, if any, which may be disallowed by the granting agencies is not determinable at this time; however, City officials do not believe that such amounts would be significant.

The City is a defendant in a number of lawsuits in its normal course of operations and management is of the opinion that ultimate settlement of such lawsuits will not have a materially adverse effect on the financial statements.

The City of Lincoln owns a solid waste disposal area which discontinued operations in 1990, but still requires certain closure and postclosure care, including the construction of final cover soil, monitoring of groundwater conditions and landfill gas migration, and general site maintenance. While accrual of closure and postclosure care costs has been reflected in the financial statements in the current year, additional corrective action costs related to landfill gas migration and groundwater conditions may be identified once testing is completed and regulatory officials have made a final review of reported findings.

STREET CONSTRUCTION PROJECTS

The City's Street Construction Capital Projects fund has commitments under major construction contracts in progress of approximately $13,709,000 as of August 31, 2002, which will be financed primarily through highway user fees, federal and state grants, and developer contributions.

LINCOLN WASTEWATER SYSTEM

The Lincoln Wastewater System has commitments under major construction contracts in progress of approximately $9,800,000 as of August 31, 2002, which will be financed primarily through operations.

Lincoln Wastewater System has commitments to fund Lincoln Water System's purchase of automated meter reading system equipment. Under the agreement, Lincoln Wastewater System will fund approximately $400,000 per year for the next five years. The maximum remaining commitment is approximately $2,000,000.

LINCOLN WATER SYSTEM

The Lincoln Water System has commitments under major construction contracts in progress of approximately $4,000,000 as of August 31, 2002, which will be financed primarily through operations and available funds.

Lincoln Water System has commitments to purchase approximately $1,000,000 of automated meter reading system equipment for the next five years. The maximum remaining commitment is approximately $5,000,000.

LINCOLN ELECTRIC SYSTEM (LES)

Participation Contract with NPPD for Cooper Nuclear Station

LES has a contract with Nebraska Public Power District (NPPD) which provides for the purchase of 12.5 percent of the output of NPPD's nominally rated 800-megawatt nuclear facility. The contract provides that LES will pay a proportionate share of the nuclear fuel costs (based on energy actually delivered) plus 12.5 percent of all other costs of the facility. Fixed cost payments under the contract are on the same percentage basis whether or not the plant is operating or operable. LES recognized expense for its share of the total fixed demand costs of approximately $26,500,000 in 2001.

The contract continues through September 22, 2003, and may be extended if NPPD continues operating the facility after that date. The nuclear facility's operating license issued by the Nuclear Regulatory Commission has been extended to 2014. Upon expiration of the contract, if the facility is no longer operated, LES would be liable for 12.5 percent of the costs of decommissioning the nuclear facility. The most recent study indicates the total cost of decommissioning the facility would approximate between $474,000,000 and $492,000,000 in 1996 dollars. The available cash balances of various NPPD funds at that time will be used to offset the total cost of decommissioning the nuclear facility. At December 31, 2001, the available fund balances approximated $291,300,000. LES recognized expense for these potential costs of approximately $2,900,000 in 2001.

Participants are also billed for disposal costs of nuclear fuel burned based on energy produced. LES recognized related costs of approximately $605,000 in 2001.

LES is responsible for 12.5 percent of capital additions and improvements at the nuclear facility. These projects are financed by NPPD and billed to LES over periods ranging from six to eight years. LES recognized as purchased power approximately $1,300,000 in 2001 for its share of these costs.

Internal financial statements of the nuclear facility reflect $73,900,000 in revenue bonds outstanding at December 31, 2001. Fixed cost payments of LES include the debt service payments necessary to retire 12.5 percent of the principal and interest on bonds issued by NPPD for the facility. LES's share of debt service payments was approximately $4,400,000 in 2001.

Expected fixed cost payments to NPPD under this contract, including debt service payments, payments for decommissioning costs, fixed costs, and other costs as noted above, aggregate approximately

$21,900,000 and $18,700,000, respectively, in each of the two years subsequent to December 31, 2001.

Various lawsuits have been filed related to the construction of a low-level radioactive waste facility in Nebraska, which would be utilized by NPPD. LES is unable to predict the effect the lawsuits could have on the construction and operation of the waste facility, but the operation of the nuclear facility, as well as access to waste storage facilities, could be adversely affected.

Other Participation Contracts with NPPD

LES has participating interests in the output of two existing NPPD power plants, a thirty percent (approximately 68 Mega Watts (MW)) and eight percent (approximately 109 MW) entitlement to the output of the Sheldon Station Power Plant (nominally rated 225 MW coal plant) and Gerald Gentleman Station Power Plant (nominally rated 1,268 MW coal plant), respectively.

LES is responsible for its respective participating interests in the two facilities' capital additions and improvements. LES's share of debt service payments necessary to retire the respective participation interests of principal and interest on bonds issued by NPPD for the facilities was approximately $6,200,000 in 2001. LES recognizes its share of capital acquisition costs and debt service payments as power costs in the period the costs are billed. Fixed cost payments under the agreements are on a participation basis whether or not such plants are operating or operable. LES recognized expense for its share of the total fixed costs of approximately $14,500,000 in 2001.

The participation contracts continue until the facilities are removed from commercial operation or the final maturity occurs on the related debt incurred by NPPD to finance the facilities, whichever occurs last. The expected fixed cost payments to NPPD under these contracts, including capital additions and improvements, debt service payments, and fixed costs and credits aggregate approximately $17,100,000, $16,900,000, $16,100,000, $16,800,000, and $16,400,000, respectively, in each of the five years subsequent to December 31, 2001.

Laramie River Station (LRS)

LES is an 12.76 percent co-owner of the Missouri Basin Power Project which includes LRS, a three-unit, 1,650 MW coal-fired generating station in eastern Wyoming and a related transmission system. Costs, net of accumulated depreciation, associated with LRS of approximately $67,000,000 are reflected in utility plant at December 31, 2001.

LES has a participation power sales agreement with the County of Los Alamos, New Mexico (the County) whereby the County purchases from LES 10 MW of LES's capacity interest in LRS. The agreement provides for the County to pay LES approximately $116,000 per month through July 1, 2002, for demand charges. The amount is subject to change each July 1 based on debt costs of LES relative to the current market rates, until termination of the agreement. At July 1, 2002, it was determined that the rate would increase to approximately $118,000 per month. The agreement remains in effect until either the final maturity occurs on any LRS related debt, LRS is removed from commercial operation or the County gives LES notice to terminate the agreement. During 2001, LES billed the County approximately $2,200,000 for demand and energy charges.

(15) SUBSEQUENT EVENTS

On July 31, 2002, subsequent to LES' December 31, 2001, reporting date, the LES administrative board approved a settlement with NPPD regarding claims and court actions related to their Power Sales Contract and to the Cooper Nuclear Station management and operating performance. The settlement included a new Power Sales Agreement with NPPD effective August 1, 2002, through September 30, 2003; an amendment to the agreement for Gerald Gentlemen Station relating to LES' entitlement to fully schedule an additional 7 megawatts from the Station; and authorization for LES to file documents for the dismissal of all outstanding litigation with NPPD related to Cooper Nuclear Station.

A significant factor in the overall settlement is the provision to release LES from any future decommissioning obligation, and also to indemnify and hold LES harmless from any claims arising from or related to the power sales contract or the operation of Cooper Nuclear Station. Economic benefits include an estimated $5 million in available decommissioning funds, $3.5 million in savings in power costs, and approximately $1 million per year in additional savings from low cost Gerald Gentlemen Station energy for so long as the station continues to operate.

In October 2002, the City issued $148,190,000 of Lincoln Electric System Revenue and Refunding Bonds, series 2002, to provide funds which, together with certain other available funds, will be used for the payment and redemption of a portion of certain of the City's outstanding Electric System Revenue Refunding Bonds, 1993 Series A. The 2002 Bonds are also being issued to refund a portion of LES' tax exempt commercial paper, fund a deposit to the 2002 Debt Service Reserve Fund and pay for certain costs and expenses related to the issuance of the 2002 Bonds. The interest rates on the 2002 bonds range from 4.00-5.00 percent and the final maturity is on September 1, 2025. Debt service payments range from $3,685,000 - $13,510,000.

In November 2002, the City issued $18,510,000 of Water Revenue Bonds, Series 2002, to provide funds necessary to pay costs incident to providing certain improvements to the municipally owned water system, establishing a reserve fund with respect to the 2002 bonds, and paying expenses incident to issuance of the bonds. The interest rates on the 2002 bonds range from 2.75-5.00 percent and the final maturity is on August 15, 2022. Debt service payments are scheduled annually at amounts that range from $735,000 - $1,465,000.

The City will issue $32,180,000 of Water Revenue Refunding Bonds, Series 2003, to provide a portion of the funds required for the payment and redemption on August 15, 2003, of $34,800,000 aggregate principal amount of the City's outstanding Water Revenue and Refunding Bonds, Series 1993 and paying expenses incident to issuance of the 2003 bonds. The interest rate on the 2003 bonds is 5.00 percent and the final maturity is on August 15, 2012. Debt service payments are scheduled annually at amounts that range from $3,115,000 - $4,335,000.

(16) RECONCILIATION OF BUDGET BASIS TO GAAP

Amounts presented on a non-GAAP budget basis of accounting differ from those presented in accordance with GAAP due to the treatment afforded accruals, encumbrances, and funds for which legally adopted annual budgets are not established. A reconciliation for the year ended August 31, 2002, which discloses the nature and amount of the adjustments necessary to convert the actual GAAP data to the budgetary basis, is presented below:

	General Fund	Street Construction Fund
Net Change in Fund Balances:		
Balance on a GAAP basis	$ 2,443,129	(3,058,635)
Basis differences (accruals) occur because the cash basis of accounting used for budgeting differs from the modified accrual basis of accounting prescribed for governmental funds.	(791,268)	(612,067)
Entity differences occur when the budget excludes programs or entities that fall within the financial reporting entity as defined by GAAP.	-	22,543,481
Balance on a budget basis	$ 1,651,861	18,872,779

(17) INTERFUND BALANCES AND ACTIVITY

Balances Due To/From Other Funds at August 31, 2002, consists of the following:

Due From		Due To				
		General Fund	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
General Fund	$	-	868	7,005	376,829	384,702
Street Construction		-	-	5,532	5,323	10,855
Community Health Endowment		-	-	-	8	8
Nonmajor Governmental		17	507,111	-	45,537	552,665
Nonmajor Enterprise		970,419	-	-	12,885	983,304
Internal Service		40	-	-	19,440	19,480
Total	$	970,476	507,979	12,537	460,022	1,951,014

"Due to" and "Due from" balances are recorded when funds overdraw their share of pooled cash. The total due to the General Fund includes $742,608 from the Emergency Medical Services enterprise fund for an advance made for cash flow needs. Of this amount, $268,000 is not expected to re repaid within one year. All remaining balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers To/From Other Funds at August 31, 2002, consists of the following:

Transfer To		Transfer From					
		General Fund	Street Construction	Nonmajor Governmental	Lincoln Electric System	Nonmajor Enterprise	Total
General Fund	$	-	-	311,325	1,140,251	-	1,451,576
Street Construction		-	-	10,114,321	-	-	10,114,321
Nonmajor Governmental		15,372,023	2,689,044	6,445,399	-	311,031	24,817,497
Nonmajor Enterprise		346,993	-	-	-	-	346,993
Internal Service		2,939	9,660	30,000	-	-	42,599
Total	$	15,721,955	2,698,704	16,901,045	1,140,251	311,031	36,772,986

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The variance of $17,251 on the Statement of Activities transfers is caused by the different fiscal year end dates used by the City (August 31) and Lincoln Electric System (December 31). Lincoln Electric System records an estimate for payments in lieu of taxes as an accrued liability at the end of their fiscal year. The City however, receives the transfer before the August 31 fiscal year end, and records the exact amount as a transfer in.

(18) RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees and the public; or acts of God. For the year ended August 31, 2002, the City has a self-insured retention for workers' compensation exposures up to $400,000 per individual; building and contents exposures up to $25,000 per occurrence; law enforcement liability exposures up to $250,000 per occurrence; general liability exposures up to $250,000 per occurrence; public officials exposures up to $250,000 per occurrence; public transportation liability exposures up to $250,000 per occurrence; auto liability exposures up to $250,000, and employee long-term disability benefits, all of which are covered under the Insurance Revolving Fund which is included in the internal service funds. The self-insurance programs are administered through the Risk Management division.

Workers' compensation is covered by a policy which provides statutory limits above the City's retention of $400,000 per individual. Law enforcement liability is covered by a policy which provides limits of $2 million per occurrence and $5 million in aggregate. Both general liability and public officials liability provides limits of $1 million per occurrence and $5 million in aggregate. Auto liability and Public transportation liability is covered by a policy which provides a limit of $5 million. The Nebraska Political Tort Claims Act limits the City's liability for tort claims to $1 million per individual and $5 million per occurrence. Settled claims have not exceeded coverage in any of the past four fiscal years.

The City annually retains the services of independent actuaries to analyze the self-insured workers' compensation, general liability, public transportation liability, law enforcement liability, auto liability, and long-term disability exposures. Such analysis has been used to assist the City with its financial planning and management of the self-insurance program. Included in the specific objectives of the studies were to:

- Estimate the outstanding liabilities for the current fiscal year ended August 31,
- Forecast ultimate incurred losses and incurred but not reported (IBNR) losses for future years, and
- Estimate the required funding level for the City's self-insured liabilities.

The City funds its self-insurance program on an "incurred loss" basis. The governmental and proprietary funds pay budgeted annual premium amounts, based on past experience of incurred losses, to the Insurance Revolving Fund. Claim liabilities of $5,507,344 were recorded at August 31, 2002. This is the actuarially estimated amount of claims based on an estimate of ultimate incurred and IBNR losses as of that date and is calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs, and other economic and social factors. These liabilities have been discounted using a 4.0% discount rate and a claim payment pattern based on the historical data of the City. The City has purchased no annuity contracts in the current fiscal year to resolve City of Lincoln claims.

The following is a summary of the changes in the estimated claims liability for the year ended August 31, 2002:

Balance at September 1	$ 4,762,334
Current year claims and changes in estimates	2,449,075
Claim payments	(1,704,065)
Balance at August 31	$ 5,507,344

(19) LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The City of Lincoln currently owns and operates a solid waste disposal area and a construction and demolition disposal area. State and federal laws require the City to close the landfills once capacity is reached and to monitor and maintain the site for thirty subsequent years on the solid waste disposal area and five subsequent years on the construction and demolition disposal area. Although certain closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

At August 31, 2002, the City had incurred a liability of approximately $4,518,000 for the solid waste disposal area which represents the amount of costs reported to date based on the approximately 30 percent of landfill capacity used to date. The remaining estimated liability for these costs is approximately $10.4 million which will be recognized as the remaining capacity is used (estimated to be approximately 24 years).

As of August 31, 2002, the City had incurred a liability of approximately $475,000 for the construction and demolition disposal area which represents the amount of costs reported to date based on the approximately 42 percent of landfill capacity used to date. The remaining estimated liability for these costs is approximately $652,000 which will be recognized as the remaining capacity is used (estimated to be approximately 18 years).

The estimated costs of closure and postclosure care, as determined by an independent engineering consultant, are subject to changes such as the effects of inflation, revision of laws, changes in technology, actual sequence of landfill development and closure, and other variables.

Effective May 2002, the City of Lincoln, in review by the Nebraska Department of Environmental Quality (NDEQ), has demonstrated compliance with the financial assurance requirements as specified in Title 132 - *Integrated Solid Waste Management Regulations*, through the Local Government Financial Test. NDEQ also approved termination of the fund equity reserve mechanism previously used to represent such financial responsibility.

The City of Lincoln also owns a solid waste disposal area which discontinued operations in 1990. Although exempt from the U.S. Environmental Protection Agency Solid Waste Disposal Facility Criteria issued October 9, 1991, the City must still adhere to certain closure and postclosure care requirements under prior legislation, including the construction of final cover soil, monitoring of ground water conditions and landfill gas migration, and general site maintenance. At August 31, 2002, a liability for closure and postclosure care costs is recorded in the amount of approximately $1,573,000, which is based on appropriations identified in the City's capital improvement projects budgeting process. Additional corrective action costs related to possible landfill gas migration and groundwater conditions will be identified once testing is completed and regulatory officials have made a final review of subsequent findings. Consequently, costs associated with the potential corrective action have not been accrued as of August 31, 2002.

(20) PUBLIC BUILDING COMMISSION

In 1990, the City and the County of Lancaster, pursuant to state statute, activated a separate governmental entity denominated as the Lincoln-Lancaster County Public Building Commission. The purpose of this joint venture is to design, acquire, construct, maintain, operate, improve, remodel, remove and reconstruct, so long as its corporate existence continues, public buildings, structures, or facilities for use jointly by the City and the County. The City and the County each appoint two members to the five-member Commission, with the fifth member being appointed by the other four members. All property held or acquired by the Commission is held or acquired in the name of the City and the County for use by the Commission in its corporate capacity. The Commission's costs of operation and debt service are funded through rental payments made by the City and the County based upon their proportionate occupancy of such buildings to the extent not covered by a maximum property tax levy of 1.7 cents for each $100 of actual valuation of taxable property in the County. For the year ended August 31, 2002, the City made rental payments of approximately $2 million to the Commission.

As of August 31, 2002, the Commission has bonds outstanding of $39,975,000 attributable to several bond issues. Certain proceeds from the bonds totaling $5,400,000 have been utilized by the Commission to acquire construct and/or renovate certain buildings occupied by the City and County. The City's proportionate share of such buildings and the corresponding debt are reflected as capital leases in the City's financial statements. Lease payments are not recorded as capital lease payments in the Debt Service funds but rather are recorded as current expenditures in the various individual funds.

Additional bond proceeds, totaling $29,000,000, have been utilized by the Commission to construct a new County-City building and to renovate the prior County-City building to be used as a Hall of Justice. It is estimated that the City occupies approximately 65% of the new building and 38% of the renovated building (Hall of Justice). It is anticipated that property tax levies by the Commission will be sufficient to meet bond principal and interest payments. Should revenues from such property tax levies not be sufficient to meet debt service requirements in any given year, the City and County would contribute the necessary payments based on their proportionate occupancy in such buildings. Such contributions are expected to be minimal and will be expensed in the appropriate funds when incurred. The City's proportionate share of the buildings has been recorded in capital assets in accordance with the terms of the joint venture agreement regarding the ultimate transfer of assets to the City and County.

Bonds of $8,330,000 have been issued to acquire and construct a parking facility adjacent to the County-City complex. The City's proportionate share of the parking facility will be recorded in capital assets upon completion, in relation to the ultimate transfer of the asset to the City and County.

Complete separate financial statements for the Commission may be obtained at the Lincoln-Lancaster County Public Building Commission, 920 "O" Street, Room 203, Lincoln, Nebraska 68508.

(21) JOINT ANTELOPE VALLEY AUTHORITY

Joint Antelope Valley Authority (JAVA) is a joint administrative entity created April 15, 2000, in accordance with Article XV, Section 18 of the Constitution of the State of Nebraska and Nebraska Revenue Statutes Section 13.801 through 13.827 (1997) authorizing the creation of a joint entity by public agencies. Per an interlocal cooperative agreement by and between the Board of Regents of the University of Nebraska, a public body corporate, the City of Lincoln, Nebraska, a municipal corporation, and the Lower Platte South Natural Resources District, a political subdivision of the State of Nebraska. JAVA constitutes a separate administrative entity, exercising the public power granted by the interlocal cooperation agreement on behalf of the three aforementioned "Partners" to coordinate planning and implementation of a public project described in the Antelope Valley Study and the U.S. Army corps of Engineers Antelope Creek Feasibility Study (the Project). The Project generally includes community revitalization, transportation, and drainage/flood control improvements.

After completion of a specific component of the Project, JAVA will transfer all real estate and improvements thereon to the appropriate individual Partner, subject to the necessary and agreed upon easements which will be conveyed to such Partner or other appropriate public or private entity, or reserved by such a Partner, for the operation, maintenance, repair and inspection of each specific component.

During the implementation period of the agreement, JAVA shall have the power and authority to acquire and condemn property rights, borrow, mortgage, pledge, or secure loans and bond its appropriated revenues and assets; provided however, that JAVA shall have no power and authority to bond the credit or revenues of the three Partners or each Partner, or levy taxes.

Complete separate financial statements for JAVA may be obtained at the City of Lincoln Public Works Business Office, 555 South 10th Street, Lincoln, Nebraska 68508.

(22) JOINTLY GOVERNED ORGANIZATIONS

District Energy Corporation

LES, in conjunction with two other governmental entities, created the District Energy Corporation (DEC) in 1989 to own, operate, maintain, and finance the heating and cooling facilities utilized by certain city, county, and state buildings. The Board of Directors of DEC is comprised of five members: two appointed by the county board of commissioners, two by the Mayor of Lincoln who must be confirmed by the City Council, and one by LES. No participant has any obligation, entitlement, or residual interest.

The DEC Board of Directors, under a twenty-year management agreement, have appointed LES to supervise and manage the system and business affairs of DEC. LES is reimbursed for these management services based on the allocated actual costs. LES also provides electric energy to DEC at an established interruptible commercial rate. The total amount of payments to LES for management, operations, and maintenance services was approximately $120,000 in 2001. The total amount of payments to LES for energy was approximately $73,000 in 2001.

Nebraska Utility Corporation

On May 17, 2001, LES, in conjunction with the University of Nebraska, created the Nebraska Utility Corporation (NUCorp). NUCorp was created to purchase, lease, construct and finance facilities and to acquire services in order to furnish energy requirements, utility and infrastructure services and all related energy, utility and infrastructure services to counties, cities, villages, school districts, sanitary and improvement districts or other municipal corporations or political subdivisions of the State of Nebraska or political subdivisions of another state. The Board of Directors of NUCorp is comprised of five members: three members appointed by the University of Nebraska and two members appointed by LES. No participant has any obligation, entitlement, or residual interest.